

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>City of Wyandotte Department of Municipal Services</u>	County <u>Wayne</u>
Audit Date <u>September 30, 2004</u>	Opinion Date <u>December 2, 2004</u>	Date Accountant Report Submitted To State: <u>March 10, 2005</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address <u>27400 Northwestern Highway</u>	City <u>Southfield</u>	State <u>MI</u>	ZIP <u>48034</u>
Accountant Signature <i>Plante & Moran, PLLC</i>			

**City of Wyandotte, Michigan
Department of Municipal Service**

**Financial Report
September 30, 2004**

City of Wyandotte, Michigan

Department of Municipal Service

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Independent Auditor's Report

To the Members of the Municipal Service
Commission
City of Wyandotte, Michigan

We have audited the accompanying basic financial statements of the City of Wyandotte, Michigan Department of Municipal Service as of and for the years ended September 30, 2004 and 2003. These financial statements are the responsibility of the Department of Municipal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Department of Municipal Service and are not intended to present fairly the financial position of the City of Wyandotte, Michigan and the results of its income and cash flows of its proprietary fund types, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Wyandotte, Michigan Department of Municipal Service at September 30, 2004 and 2003 and the results of its income and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, the Department adopted Governmental Accounting Standards Board Statement Number 34 during the year ended September 30, 2003. As a result, the equity section of the statements now includes net assets (in its three components), rather than contributed capital and retained earnings.

The management's discussion and analysis is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the City of Wyandotte, Michigan Department of Municipal Service. We did not examine this data and, accordingly, do not express an opinion thereon.

Plante & Moran, PLLC

December 2, 2004

A member of



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City of Wyandotte, Michigan

Department of Municipal Service

Management's Discussion and Analysis

Our discussion and analysis of Wyandotte Department of Municipal Service's (the "Department") performance provides an overview of the Department's financial activities for the fiscal year ended September 30, 2004. Please read it in conjunction with the Department's financial statements.

Using this Annual Report

The Department of Municipal Service is a department created by the City of Wyandotte, Michigan (the "City") that is governed and operated independently from the City by the Municipal Service Commission (the "Commission"). The Commission provides electric, steam, high temperature hot water, water, cable television, and Internet services to users in the City and accounts for these activities in separate funds. This annual report consists of a series of financial statements. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the Department. This is followed by the statement of cash flows, which presents detailed information about the changes in the Department's cash position during the year.

Financial Highlights

Electric Fund

- The Electric Fund's operating revenue declined slightly for the year by 1.31 percent. The residential customer class billings were approximately \$200,000 less than last year. Operating revenue for the year totaled approximately \$22,800,000.
- The Electric Fund's operating expenses increased by 3.0 percent, as a result of higher power production costs.
- Accordingly, operating income decreased by approximately \$938,000 or 54 percent.
- During the year, the Department conducted a significant inspection and overhaul project of Turbine Generator #5 at the municipal power plant. This project was part of the Department's regularly scheduled preventive maintenance that typically occurs every five to seven years. The project was eventually completed and Turbine Generator #5 returned to regular operation. However, the contractor has asserted claims of nearly \$2 million without appropriate documentation for approximately \$765,000 of those claims, which the Department disputes. Delays in completing the project in a timely manner also resulted in the Department incurring additional operating costs and lost revenues.

City of Wyandotte, Michigan

Department of Municipal Service

Management's Discussion and Analysis (Continued)

- In fiscal year 2003, the Department conducted tests of western bituminous coal as an alternative to central appalachian compliance coal typically used in boiler #7 due to volatile and increasing prices of this traditional fuel source. These tests were successful and following approximately \$100,000 in capital improvements to boiler #7, western bituminous compliance coal was used in boiler #7 at significantly less cost than the central appalachian alternative. An agreement was executed with Twentymile Coal Company to supply approximately 116,000 tons of western bituminous compliance coal delivered to the KCBX transloading facility in Chicago in calendar year 2004. Agreements with KCBX to transload coal into lake vessels supplied by United Steam Ship for delivery to the Wyandotte municipal power plant were also executed.
- An agreement was executed with Alpha Coal Sales to supply approximately 45,000 tons of mid-sulfur coal for boiler #8 delivered at Lake Erie ports for transloading into lake vessels provided by Great Lakes Fleet for subsequent delivery to the Wyandotte municipal power plant.
- During fiscal year 2004, the Department received approval from the Michigan Department of Environmental Quality (MDEQ) to use up to 100 percent untreated wood waste as an alternative fuel in boiler #8 and is conducting tests to determine the feasibility of using this less expensive fuel source. The Department has also applied to the MDEQ to increase the amount of tire-derived fuel that can be blended with mid-sulfur coal as a fuel source for boiler #8 from 20 percent to 55 percent. If approved, this will significantly decrease the average fuel cost for boiler #8. MDEQ action on the Department's application is expected in calendar year 2005.
- The Department entered into an agreement with American Municipal Power-Ohio, Inc., (AMP-Ohio) for calendar year 2004 that allowed the Department to sell up to 10 megawatts (MW) of surplus energy to AMP-Ohio at the Department's average variable operation and maintenance (O&M) cost plus 15 percent or \$3.50, whichever was less, for all months except July and August. In July and August, the Department was allowed to purchase up to 10MW from AMP-Ohio at the average cost of AMP-Ohio's Northeast Power Pool. This arrangement allowed the Department to market surplus energy at a positive margin when it was not needed to serve its retail customers and to hedge summer power supply cost risks by combining its needs in a pool with other municipal electric utilities. Unfortunately, due to delays with completion of the turbine generator #5 inspection and overhaul project, the Department had less surplus energy available to sell to AMP-Ohio, resulting in significant lost revenues and margins. In addition, the Department purchased additional energy above the arrangement with AMP-Ohio due, at least in part, to the contractor's delay in completing the inspection and overhaul project.

City of Wyandotte, Michigan

Department of Municipal Service

Management's Discussion and Analysis (Continued)

- In 2004, the Department joined the Michigan Public Power Agency (MPPA), a joint action agency composed of a number of Michigan municipal electric utilities to cooperatively provide reliable, affordable power supply and transmission services to its members. The Department is also a member of AMP-Ohio, a joint action agency of municipal electric systems in Ohio, Michigan, Pennsylvania, and West Virginia. The Department has worked with both nonprofit agencies in the past to reduce its wholesale power purchase costs and risks and to sell surplus energy. The Department is actively working with both agencies on power supply options for 2005 but has not executed any agreements to date.
- The Department is investigating the feasibility of installing three 1.8-MW diesel generators designed to provide an independent source of emergency power to restart the boilers at the municipal power plant in the event of a total electric distribution system outage such as the events of August 14, 2003. These units would also provide additional local generating capacity to meet Wyandotte's growing electrical needs, diversify Wyandotte's power supply resources and can be started very quickly if needed. A decision on this issue is expected in fiscal year 2005.
- The Department's bond ordinance specifies that the Department's Electric Fund budget provide net revenue that equals or exceeds 110 percent of the annual debt service requirement. The ratio that measures the relationship between the Department's net revenue and its annual debt service requirement is known as the "debt service coverage ratio". While the 110 percent debt service coverage ratio test is prospective, it is important that the Department's actual results yield net revenue that equals or exceeds 110 percent of the annual debt service requirement. The actual debt service coverage ratio for the year exceeded 110 percent (approximately 127 percent for the year ended September 30, 2004).
- Another financial covenant in the Department's bond ordinance requires that actual expenditures of the Department do not exceed budget. During the current year, the Department was in compliance with this covenant.

Water Fund

- The Water Fund's operating revenue increased approximately 30.5 percent in the current year. The increase was a result of the Commission reclassifying an infrastructure charge (reported as a nonoperating revenue) to a component of the base water utility rates (first full year of revenue from that change) and an increase in meter service charges.
- The Water Fund has not generated any meaningful amounts of working capital or excess operating cash. The Water Fund has been assisted by annual contributions of fixed assets from the City's Tax Increment Financing Authority in the form of water main replacements. The value of the current year contribution was approximately \$446,000.

City of Wyandotte, Michigan

Department of Municipal Service

Management's Discussion and Analysis (Continued)

- This year's financial statement reports a deficit in unrestricted net assets of approximately \$404,000 (compared to \$387,000 last year). The Department conducted a water utility cost of service study and increased rates approximately 15 percent on July 1, 2004 as a result to improve the financial condition of the Water Fund. A second increase of approximately 10 percent is effective January 1, 2005. Management anticipates that a series of future rate increases will be likely to restore the financial health of the Water Fund and to cover the anticipated reductions in future TIFA contributions.

Cable Television Fund

- The Cable Television Fund's operating revenue increased by 5.3 percent, due mainly to an increase in cable modem Internet revenue of \$257,000, or 22 percent.
- The Cable Television Fund's operating income decreased by approximately \$35,000, or 22 percent as a result of increases in operating expenses (particularly royalties paid for satellite programming services).
- The Cable Television Fund still continues to accumulate excess operating cash to retire the debt outstanding on the rebuild of its fiber optic cable network completed in 1999. The monies are being accumulated for potential use when the debt becomes callable.
- The Cable Television Fund also completed a cost of service study that resulted in a number of rate adjustments.

The Department also participated in an operations review with the City of Wyandotte to identify potential opportunities for the city departments to work more closely together and potentially share resources. The Department and the City are working together to determine the nature and extent of future efforts in this area.

City of Wyandotte, Michigan

Department of Municipal Service

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The following table presents condensed information about the Department's financial position compared to the prior year:

	September 30		Change	
	2004	2003	Amount	Percent
Assets				
Current assets	\$ 8,316,648	\$ 10,141,549	\$ (1,824,901)	(17.99)
Restricted assets	13,078,445	12,759,412	319,033	2.50
Property, plant, and equipment	61,610,057	63,719,502	(2,109,445)	(3.31)
Other	791,786	853,890	(62,104)	(7.27)
Total assets	83,796,936	87,474,353	(3,677,417)	(4.20)
Liabilities				
Current liabilities	7,918,058	8,385,399	(467,341)	(5.57)
Liabilities payable from restricted assets	3,585,006	3,227,006	358,000	11.09
Long-term debt	39,960,253	42,791,929	(2,831,676)	(6.62)
Total liabilities	51,463,317	54,404,334	(2,941,017)	(5.41)
Net Assets				
Invested in capital assets - Net of debt	16,289,804	16,132,573	157,231	N/A
Restricted assets	11,913,439	11,532,406	381,033	3.30
Unrestricted	4,130,376	5,405,040	(1,274,664)	(23.58)
Total net assets	<u>\$ 32,333,619</u>	<u>\$ 33,070,019</u>	<u>\$ (736,400)</u>	N/A

The following table presents condensed information about the Department's revenues and expenses, compared to the prior year:

	Year Ended September 30		Change	
	2004	2003	Amount	Percent
Total operating revenue	\$ 30,631,013	\$ 30,105,128	\$ 525,885	1.75
Total operating expenses	29,822,423	28,721,305	1,101,118	3.83
Operating income	808,590	1,383,823	(575,233)	(41.57)
Operating transfers out	-	(92,322)	92,322	(100.00)
Contributions	446,746	304,136	142,610	46.89
Other nonoperating expense	(1,991,736)	(1,810,425)	(181,311)	10.01
Net loss	<u>\$ (736,400)</u>	<u>\$ (214,788)</u>	<u>\$ (521,612)</u>	242.85

City of Wyandotte, Michigan

Department of Municipal Service

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

During the year, the Department completed a variety of projects in each fund. The Electric Fund's capital spending was directed at power plant improvements (including the turbine generator #5 inspection and overhaul project) and the electric distribution system. The Water Fund completed water treatment plant improvements and water main replacements with the assistance of the City's Tax Increment Financing Authority. The Cable Television Fund was involved with headend upgrades, replacement of studio equipment, and distribution system improvements.

The Department continues to be current on servicing debt obligations outstanding.

Economic Factors and Next Year's Rates

The Electric Fund's budget for 2005 is contingent upon achieving savings in power production costs through negotiated purchase power arrangements. Coupled with the outcome of the ultimate cost of the turbine repair project, these two matters may have a significant impact on the financial condition of the Electric Fund.

As discussed, the Commission is in the process of addressing the Water Fund's negative working capital position and rate adjustments are very likely over the next several years. The Electric and Cable Television Funds will continue to review their rates annually as recommended in the recently completed cost of service studies.

Contacting the Department's Management

This financial report is intended to provide our consumers and investors with a general overview of the Department's finances. If you have questions about this report or need additional information, we welcome you to contact the Department's general manager.

City of Wyandotte, Michigan

Department of Municipal Service

Statement of Net Assets

	September 30				
	2004				2003
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Assets					
Current Assets					
Cash and investments (Note 3)	\$ 1,283,803	\$ 73,983	\$ 766,718	\$ 2,124,504	\$ 3,790,135
Accounts receivable:					
Billed (Note 4)	1,598,957	161,148	290,732	2,050,837	1,904,070
Unbilled	1,683,671	92,300	-	1,775,971	1,775,971
Fuel, materials, supplies, and other inventories	2,121,224	101,860	57,355	2,280,439	1,912,089
Prepaid insurance and other current assets	60,867	193	23,837	84,897	759,284
Total current assets	6,748,522	429,484	1,138,642	8,316,648	10,141,549
Noncurrent Assets					
Restricted assets (Note 7)	11,813,353	146,185	1,118,907	13,078,445	12,759,412
Bond issuance costs (Note 12)	791,786	-	-	791,786	853,890
Property, plant, and equipment (Note 5)	49,510,863	8,285,073	3,814,121	61,610,057	63,719,502
Total noncurrent assets	62,116,002	8,431,258	4,933,028	75,480,288	77,332,804
Total assets	<u>\$ 68,864,524</u>	<u>\$ 8,860,742</u>	<u>\$ 6,071,670</u>	<u>\$ 83,796,936</u>	<u>\$ 87,474,353</u>
Liabilities and Net Assets					
Current Liabilities					
Current portion of long-term debt (Note 6)	\$ 2,565,000	\$ -	\$ 375,000	\$ 2,940,000	\$ 2,795,000
Accounts payable	1,319,794	50,132	255,840	1,625,766	2,427,196
Due to City of Wyandotte - Sewage Disposal Fund (Note 9)	-	504,973	-	504,973	370,109
Accrued compensation	136,760	29,584	30,443	196,787	166,183
Other accrued liabilities	1,084,432	248,821	437,852	1,771,105	1,731,668
Deferred revenue	-	-	172,664	172,664	185,000
Customer deposits and other current liabilities	488,363	-	218,400	706,763	710,243
Total current liabilities	5,594,349	833,510	1,490,199	7,918,058	8,385,399
Liabilities to be Paid from Restricted Assets - Debt service payable					
	3,585,006	-	-	3,585,006	3,227,006
Long-term Debt - Net of current portion and amount payable from restricted assets (Note 6)					
	37,668,722	-	2,291,531	39,960,253	42,791,929
Net Assets					
Invested in property, plant, and equipment - Net of related debt	6,857,141	8,285,073	1,147,590	16,289,804	16,132,573
Restricted (Note 7)	10,648,347	146,185	1,118,907	11,913,439	11,532,406
Unrestricted	4,510,959	(404,026)	23,443	4,130,376	5,405,040
Total net assets	22,016,447	8,027,232	2,289,940	32,333,619	33,070,019
Total liabilities and net assets	<u>\$ 68,864,524</u>	<u>\$ 8,860,742</u>	<u>\$ 6,071,670</u>	<u>\$ 83,796,936</u>	<u>\$ 87,474,353</u>

City of Wyandotte, Michigan

Department of Municipal Service

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended September 30				
	2004				2003
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Operating Revenue	\$ 22,778,734	\$ 2,364,300	\$ 5,487,979	\$ 30,631,013	\$ 30,105,128
Operating Expenses					
Production, pumping, and purification	12,454,856	609,312	-	13,064,168	12,400,105
Distribution	963,144	509,870	579,434	2,052,448	2,094,617
Cable television royalties	-	-	2,718,831	2,718,831	2,476,359
Customer service	169,417	51,392	76,912	297,721	289,614
Office and administrative	403,983	212,677	397,145	1,013,805	1,109,508
General and miscellaneous	3,045,262	620,751	1,045,040	4,711,053	4,424,447
Transportation	44,027	20,666	7,013	71,706	64,024
Depreciation	4,891,967	459,155	541,569	5,892,691	5,862,631
Total operating expenses	21,972,656	2,483,823	5,365,944	29,822,423	28,721,305
Operating Income (Loss)	806,078	(119,523)	122,035	808,590	1,383,823
Nonoperating Income (Expenses)					
Gain (loss) on sale of asset	12,002	876	41,685	54,563	(19,284)
Infrastructure revenue	-	(56)	-	(56)	373,566
Interest and other income	317,888	99,882	67,124	484,894	505,297
Interest expense	(2,352,001)	-	(117,036)	(2,469,037)	(2,607,904)
Amortization of bond issuance costs	(62,100)	-	-	(62,100)	(62,100)
Total nonoperating income (expenses)	(2,084,211)	100,702	(8,227)	(1,991,736)	(1,810,425)
Income (Loss) - Before operating transfers and contribution of fixed assets	(1,278,133)	(18,821)	113,808	(1,183,146)	(426,602)
Operating Transfers Out - City of Wyandotte	-	-	-	-	(92,322)
Contribution of Fixed Assets	-	446,746	-	446,746	304,136
Net Income (Loss)	(1,278,133)	427,925	113,808	(736,400)	(214,788)
Net Assets - Beginning of year	23,294,580	7,599,307	2,176,132	33,070,019	33,284,807
Net Assets - End of year	<u>\$ 22,016,447</u>	<u>\$ 8,027,232</u>	<u>\$ 2,289,940</u>	<u>\$ 32,333,619</u>	<u>\$ 33,070,019</u>

City of Wyandotte, Michigan

Department of Municipal Service

Statement of Cash Flows

	Year Ended September 30				
	2004				2003
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Cash Flows from Operating Activities					
Cash received from customers	\$ 22,590,894	\$ 2,381,124	\$ 5,512,228	\$ 30,484,246	\$ 29,941,608
Cash payments to suppliers for goods and services	(12,956,466)	(718,026)	(3,578,367)	(17,252,859)	(18,956,400)
Cash payments to employees for services	(4,534,344)	(1,231,795)	(1,241,643)	(7,007,782)	(5,144,338)
Net cash provided by operating activities	5,100,084	431,303	692,218	6,223,605	5,840,870
Cash Flows from Noncapital Financing Activities -					
Operating transfer	-	-	-	-	(92,322)
Cash Flows from Capital and Related Financing Activities					
Infrastructure revenue	-	(56)	-	(56)	373,566
Principal and interest paid on long-term debt	(4,305,677)	-	(492,036)	(4,797,713)	(4,372,891)
Purchase of capital assets - Net of reimbursements	(2,602,961)	(456,354)	(198,013)	(3,257,328)	(1,535,891)
Net cash used in capital and related financing activities	(6,908,638)	(456,410)	(690,049)	(8,055,097)	(5,535,216)
Cash Flows from Investing Activities - Interest received on investments	317,888	99,882	67,124	484,894	505,297
Net Increase (Decrease) in Cash and Cash Equivalents	(1,490,666)	74,775	69,293	(1,346,598)	718,629
Cash and Cash Equivalents - Beginning of year	14,587,822	145,393	1,816,332	16,549,547	15,830,918
Cash and Cash Equivalents - End of year	\$ 13,097,156	\$ 220,168	\$ 1,885,625	\$ 15,202,949	\$ 16,549,547
Reconciliation to Balance Sheet					
Cash and investments	\$ 1,283,803	\$ 73,983	\$ 766,718	\$ 2,124,504	\$ 3,790,135
Restricted assets	11,813,353	146,185	1,118,907	13,078,445	12,759,412
Total	\$ 13,097,156	\$ 220,168	\$ 1,885,625	\$ 15,202,949	\$ 16,549,547

City of Wyandotte, Michigan

Department of Municipal Service

Statement of Cash Flows (Continued)

	Year Ended September 30				
	2004				2003
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities					
Operating income (loss)	\$ 806,078	\$ (119,523)	\$ 122,035	\$ 808,590	\$ 1,383,823
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation/Amortization	4,891,967	459,155	541,569	5,892,691	5,862,631
Gain (loss) on sale of property, plant, and equipment	12,002	876	(37,483)	(24,605)	(19,284)
Changes in assets and liabilities:					
Receivables	(187,840)	16,824	24,249	(146,767)	(163,395)
Due from other funds	125	-	182,371	182,496	(182,496)
Inventory	(339,862)	(13,567)	(14,921)	(368,350)	(454,065)
Prepaid insurance and other current assets	496,444	35,952	141,991	674,387	(350,843)
Accounts payable	(597,831)	40,117	(243,716)	(801,430)	761,027
Due to other funds	(15,000)	(167,371)	(125)	(182,496)	72,704
Accrued and other liabilities	34,001	43,976	(11,416)	66,561	8,052
Due to City of Wyandotte	-	134,864	-	134,864	(1,262,284)
Deferred revenue	-	-	(12,336)	(12,336)	185,000
Net cash provided by operating activities	<u>\$ 5,100,084</u>	<u>\$ 431,303</u>	<u>\$ 692,218</u>	<u>\$ 6,223,605</u>	<u>\$ 5,840,870</u>

During the years ended September 30, 2004 and 2003, constructed water mains were donated to the Department in the amount of \$446,746 and \$304,136, respectively.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements

September 30, 2004 and 2003

Note 1 - Nature of Entity

The Department of Municipal Service (the "Department") is a department created by the City of Wyandotte, Michigan (the "City") that is governed and operated independently from the City by the Municipal Service Commission (the "Commission"). The Commission provides electric, water, cable television, and Internet services to users in the City and accounts for these activities in separate funds.

The funds of the Department are included in the basic financial statements of the City at September 30, 2004.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of the Department conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity - The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. In accordance with these guidelines, there are no component units to be included in these financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Department has not elected to apply private sector standards issued after December 31, 1989.

As a general rule, the effect of interfund activity has been eliminated from the statements. Exceptions to this general rule are charges between the City's enterprise functions and various other functions of the City. Eliminations of these charges would distort the costs and revenues for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2004 and 2003

Note 2 - Summary of Significant Accounting Policies (Continued)

The operating revenue represents billings to customers based primarily on usage by the Department's customers. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets

Cash Equivalents - Cash equivalents consist of highly liquid investments with an original maturity of three months or less, including certificates of deposit, government investment pools, and other cash management funds. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are reported at fair value, based on quoted market prices.

Inventories - Inventories are stated at the lower of cost, determined by the average cost method for general inventory and determined by the first-in, first-out method for coal inventory, or market.

Significant Customers - The electric department has two significant customers, Wayne County, Michigan and BASF Corporation, representing approximately 9 percent and 19 percent, respectively, of the electric department's operating revenue for the year ended September 30, 2004.

The water department has four significant customers, BASF Corporation, Wayne County, the Department of Municipal Service's Electric Department, and Wyandotte Hospital, representing approximately 14 percent, 5 percent, 2 percent, and 3 percent, respectively, of the water department's operating revenue for the year ended September 30, 2004.

Property, Plant, and Equipment - Property, plant, and equipment are recorded at cost or, if donated, at their estimated fair value on the date donated. Depreciation is charged as an expense against the operations of the Department on a straight-line basis. No depreciation expense has been recorded for amounts reflected as construction in progress.

Deferred Revenue - Deferred revenue relates to a contract in the Cable Television Fund between the Department and Wyandotte Public Schools related to construction and usage of the Department's fiber optic cable system. Monies received in advance will be recognized over the term of the contract.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2004 and 2003

Note 2 - Summary of Significant Accounting Policies (Continued)

Pension Plan - The Department has a defined benefit retirement plan covering substantially all permanent, full-time employees through participation in the City of Wyandotte Employees' Retirement System. Annual retirement expense includes a provision for funding prior service costs in excess of fund assets on the basis of funding such excess over a remaining period of 13 years as of September 2004. The Department's policy is to fund retirement cost accrued.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative Data/Reclassifications - Comparative total data for the prior year has been presented to provide an understanding of the changes in the financial position and operations. Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Note 3 - Deposits and Investments

The Department's deposits and investments at September 30, 2004 and 2003 are included on the balance sheet under the following classifications:

	Balance Sheet Classification			
	2004		2003	
	Cash and Investments	Restricted Assets	Cash and Investments	Restricted Assets
Deposits	\$ 204,036	\$ -	\$ 1,468,558	\$ -
Investments	<u>1,920,468</u>	<u>13,078,445</u>	<u>2,321,577</u>	<u>12,759,412</u>
Total	<u>\$ 2,124,504</u>	<u>\$ 13,078,445</u>	<u>\$ 3,790,135</u>	<u>\$ 12,759,412</u>

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2004 and 2003

Note 3 - Deposits and Investments (Continued)

Deposits - The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$2,376,000 and \$3,160,000 in 2004 and 2003, respectively.

Of those amounts, up to approximately \$226,000 and \$200,000 was covered by federal depository insurance in 2004 and 2003, respectively. This insurance coverage pertains to all the deposits of the City of Wyandotte; hence, the specific coverage pertaining to the Department's deposits, if any, is not determinable. Of the preceding deposit amounts, therefore, the uninsured and uncollateralized portions totaled at least \$2,150,000 and \$2,960,000 in 2004 and 2003, respectively.

The Department's cash management approach utilizes a bank investment pool, which is directly related to the Department's bank deposits. However, pursuant to Governmental Accounting Standards Board Statement Number 3, the bank investment pool is classified as "investments" for this Note.

The Department believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Department evaluates each financial institution with which it deposits Department funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments - The Department is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles. The revenue bond ordinance described in Note 6 places further restrictions on investments of certain monies.

Normally, investments are categorized to give an indication of the level of risk assumed by the entity in holding certain types of investments. However, the investments of the Department are not categorized because they are not evidenced by securities that exist in physical or book entry form. The Department believes that all investments comply with the investment authority noted above.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2004 and 2003

Note 3 - Deposits and Investments (Continued)

	Carrying Amount (Fair Value)	
	2004	2003
U.S. government pooled investment fund and other bank investment pools	<u>\$ 14,998,913</u>	<u>\$ 15,080,989</u>

The pooled investment fund and the bank investment pools are regulated by the Michigan Banking Act, and the fair value of the position in the pool is the same as the value of the pool shares.

Note 4 - Billed and Unbilled Accounts Receivable

Billed accounts receivable, net of allowance for uncollectible accounts, are as follows:

	2004				2003
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Accounts receivable	\$ 1,737,071	\$ 163,284	\$ 302,196	\$ 2,202,551	\$ 2,038,872
Less allowance for uncollectible accounts	<u>(138,114)</u>	<u>(2,136)</u>	<u>(11,464)</u>	<u>(151,714)</u>	<u>(134,802)</u>
Net accounts receivable	<u>\$ 1,598,957</u>	<u>\$ 161,148</u>	<u>\$ 290,732</u>	<u>\$ 2,050,837</u>	<u>\$ 1,904,070</u>

Unbilled accounts receivable represents services that have been provided to customers through September 30, 2004 for which billings were processed subsequent to year end.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2004 and 2003

Note 5 - Property, Plant, and Equipment

	Balance at October 1, 2003	Additions	Disposals and Adjustments	Balance at September 30, 2004
Capital assets being depreciated:				
Utility plant	\$ 90,622,064	\$ 1,670,892	\$ -	\$ 92,292,956
Transmission	5,768,155	-	-	5,768,155
Pumping	1,677,443	151,433	-	1,828,876
Purification	3,689,061	63,724	-	3,752,785
Distribution	34,145,080	1,824,390	126,910	35,842,560
Transportation	1,812,395	18,710	281,074	1,550,031
Stores	737,825	37,665	-	775,490
Cable equipment	952,790	44,809	-	997,599
Studio	452,546	16,076	-	468,622
General	2,825,151	60,188	-	2,885,339
Construction in progress	118,879	-	118,879	-
Total capital assets being depreciated	142,801,389	3,887,887	526,863	146,162,413
Accumulated depreciation:				
Utility plant	47,261,881	3,885,194	-	51,147,075
Transmission	3,954,784	171,432	-	4,126,216
Pumping	710,199	101,225	-	811,424
Purification	2,779,396	102,627	-	2,882,023
Distribution	19,520,720	1,237,243	141,148	20,616,815
Transportation	1,269,146	120,521	281,074	1,108,593
Stores	499,973	38,702	-	538,675
Cable equipment	461,933	119,072	-	581,005
Studio	376,715	29,424	-	406,139
General	2,247,140	87,251	-	2,334,391
Total accumulated depreciation	79,081,887	5,892,691	422,222	84,552,356
Net capital assets being depreciated	<u>\$ 63,719,502</u>	<u>\$ (2,004,804)</u>	<u>\$ 104,641</u>	<u>\$ 61,610,057</u>

Depreciation of \$4,891,967 and \$4,839,231 for the Electric Fund, \$459,155 and \$412,215 for the Water Fund, and \$541,569 and \$611,185 for the Cable Television Fund has been included in operating expenses of the appropriate fund for the years ended September 30, 2004 and 2003, respectively.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2004 and 2003

Note 6 - Long-term Debt

Outstanding Debt

Long-term debt outstanding is as follows:

	2004			2003
	Electric	Cable		
	Fund	Television	Total	Total
	Fund	Fund		
1992 revenue refunding bonds - Net of unamortized discount and deferred refunding credit	\$ 12,045,000	\$ -	\$ 12,045,000	\$ 14,045,000
2002 revenue refunding bonds - Net of unamortized premium and deferred refunding charge	30,608,722	-	30,608,722	30,500,398
1998 installment purchase agreement	-	2,666,531	2,666,531	3,041,531
Less current portion	(2,565,000)	(375,000)	(2,940,000)	(2,795,000)
Less portion payable from restricted assets	(2,420,000)	-	(2,420,000)	(2,000,000)
Total long-term debt - Net of current portion and amount payable from restricted assets	<u>\$ 37,668,722</u>	<u>\$ 2,291,531</u>	<u>\$ 39,960,253</u>	<u>\$ 42,791,929</u>

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2004 and 2003

Note 6 - Long-term Debt (Continued)

Changes in Long-term Debt

The following is a summary of long-term debt transactions of the Department for the years ended September 30, 2004 and 2003:

	2002 Revenue Refunding Bonds (Net of Premium and Deferred Refunding Charge)	1992 Revenue Refunding Bonds (Net of Discount and Deferred Refunding Credit)	1998 Cable Installment Purchase Agreement	Total
Long-term debt - October 1, 2002	\$ 30,392,074	\$ 15,930,000	\$ 3,416,531	\$ 49,738,605
Debt retired	-	(1,885,000)	(375,000)	(2,260,000)
Deferred charge on refunding	167,916	-	-	167,916
Discount and deferred credit amortization	(59,592)	-	-	(59,592)
Long-term debt - September 30, 2003	30,500,398	14,045,000	3,041,531	47,586,929
Debt retired	-	(2,000,000)	(375,000)	(2,375,000)
Deferred charge on refunding	167,916	-	-	167,916
Discount and deferred credit amortization	(59,592)	-	-	(59,592)
Long-term debt - September 30, 2004	<u>\$ 30,608,722</u>	<u>\$ 12,045,000</u>	<u>\$ 2,666,531</u>	<u>\$ 45,320,253</u>

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2004 and 2003

Note 6 - Long-term Debt (Continued)

Debt Service Requirements - The annual total principal and interest requirements to service all debt outstanding as of September 30, 2004, excluding unamortized discount-premiums on bonds payable, deferred refunding charges, and current amounts already provided for in restricted assets, are as follows:

Years Ending September 30	2002 Electric Fund Refunding		1992 Electric Fund		1998 Cable Installment		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2005	\$ 305,000	\$ 1,502,364	\$ 2,260,000	\$ 620,000	\$ 375,000	\$ 107,910	\$ 5,170,274
2006	315,000	1,492,451	2,400,000	478,750	375,000	92,273	5,153,474
2007	325,000	1,482,214	2,550,000	328,750	375,000	76,635	5,137,599
2008	335,000	1,471,651	2,710,000	169,375	375,000	60,998	5,122,024
2009	2,835,000	1,459,926	-	-	375,000	45,360	4,715,286
2010-2014	15,965,000	5,517,223	-	-	791,531	44,987	22,318,741
2015-2019	11,615,000	1,270,381	-	-	-	-	12,885,381
Total	<u>\$ 31,695,000</u>	<u>\$ 14,196,210</u>	<u>\$ 9,920,000</u>	<u>\$ 1,596,875</u>	<u>\$ 2,666,531</u>	<u>\$ 428,163</u>	<u>\$ 60,502,779</u>

Interest - For the years ended September 30, 2004 and 2003, total interest costs of \$2,352,001 and \$2,475,234, respectively, were incurred in the Electric Fund. For the years ended September 30, 2004 and 2003, total interest costs of \$117,036 and \$132,670, respectively, were incurred in the Cable Fund.

Electric Fund Revenue Bonds - The 1992 and the 2002 Electric Revenue Refunding Bonds are payable out of the net revenue of the Electric Fund. The City of Wyandotte, Michigan has no liability for these bonds if the net revenue pledged should prove insufficient.

The revenue bond ordinance contains certain covenants and provisions that, among other matters, relate to the following:

- Segregation of proceeds of the revenue bond issue
- Segregation of Electric Fund revenue
- Segregation of assets for debt service payments
- Segregation of assets for construction of improvements to the system
- Periodic transfers of net revenue to those funds segregated for debt service payments
- Sale, lease, or other disposition of all or any substantial part of the system
- Establishment of rates sufficient to provide for required level of debt service coverage
- Adoption of and adherence to budgeted operation and maintenance expenses

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2004 and 2003

Note 6 - Long-term Debt (Continued)

Included in the current assets of the Electric Fund at September 30, 2004 and 2003 is approximately \$253,000 and \$291,000, respectively, earmarked for future repairs of the system pursuant to the ordinance. Also included in the current liabilities of the Electric Fund at September 30, 2004 is that portion of the bond principal that was to be transferred within the next year to the Bond and Interest Redemption Fund for payment of bond principal.

The following represents maturity schedules of the outstanding bonds payable:

Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
			2004	2003
Amount of issue - \$61,185,000				
Date of issue - April 1, 1992				
*Amounts were defeased in 2002				
6.20	10/01/03	\$ 2,000,000	\$ -	\$ 2,000,000
6.25	10/01/04	2,125,000	2,125,000	2,125,000
6.25	10/01/05	2,260,000	2,260,000	2,260,000
6.25	10/01/06	2,400,000	2,400,000	2,400,000
6.25	10/01/07	2,550,000	2,550,000	2,550,000
6.25	10/01/08	2,710,000	2,710,000	2,710,000
6.25	10/01/09	2,875,000	*	*
6.25	10/01/10	3,060,000	*	*
6.25	10/01/11	3,245,000	*	*
6.25	10/01/12	3,455,000	*	*
6.25	10/01/13	3,665,000	*	*
6.25	10/01/14	3,900,000	*	*
6.25	10/01/15	4,140,000	*	*
6.25	10/01/16	4,400,000	*	*
6.25	10/01/17	4,675,000	*	*
Total			\$ 12,045,000	\$ 14,045,000

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2004 and 2003

Note 6 - Long-term Debt (Continued)

	Interest		Amount of	Principal Outstanding	
	Rate	Date of	Annual		
	(Percent)	Maturity	Maturity	2004	2003
Amount of issue - \$31,990,000					
Date of issue - July 9, 2002					
	3.25	10/01/04	\$ 295,000	\$ 295,000	\$ 295,000
	3.25	10/01/05	305,000	305,000	305,000
	3.25	10/01/06	315,000	315,000	315,000
	3.25	10/01/07	325,000	325,000	325,000
	3.50	10/01/08	335,000	335,000	335,000
	3.70	10/01/09	2,835,000	2,835,000	2,835,000
	3.85	10/01/10	2,945,000	2,945,000	2,945,000
	4.00	10/01/11	3,050,000	3,050,000	3,050,000
	4.10	10/01/12	3,180,000	3,180,000	3,180,000
	5.38	10/01/13	3,305,000	3,305,000	3,305,000
	5.38	10/01/14	3,485,000	3,485,000	3,485,000
	5.38	10/01/15	3,670,000	3,670,000	3,670,000
	5.38	10/01/16	3,870,000	3,870,000	3,870,000
	5.38	10/01/17	4,075,000	<u>4,075,000</u>	<u>4,075,000</u>
	Total face value			31,990,000	31,990,000
	Unamortized premium - Net of deferred refunding charge			<u>(1,381,278)</u>	<u>(1,489,602)</u>
	Net			\$ 30,608,722	\$ 30,500,398

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2004 and 2003

Note 6 - Long-term Debt (Continued)

Cable Television Fund Installment Purchase Contract - In October 1998, the Department entered into a Limited Tax General Obligation Installment Purchase Contract for the purpose of financing the purchase and installation of a fiber optic cable network for the Department's cable television system. The Department was authorized to borrow up to \$4,500,000 in accordance with the terms of the contract (at closing date of the borrowing, in April 2001, the final contract amount was \$3,994,031). Beginning in May 1999, interest-only payments at a rate of 4.16 percent per annum are due semiannually with principal payments due as follows:

Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
		2004	2003
Amount of contract - \$3,994,031			
Date of issue - October 16, 1998			
Interest rate - 4.16%			
11/01/03	\$ 187,500	\$ -	\$ 187,500
05/01/04	187,500	-	187,500
11/01/04	187,500	187,500	187,500
05/01/05	187,500	187,500	187,500
11/01/05	187,500	187,500	187,500
05/01/06	187,500	187,500	187,500
11/01/06	187,500	187,500	187,500
05/01/07	187,500	187,500	187,500
11/01/07	187,500	187,500	187,500
05/01/08	187,500	187,500	187,500
11/01/08	187,500	187,500	187,500
05/01/09	187,500	187,500	187,500
11/01/09	187,500	187,500	187,500
05/01/10	187,500	187,500	187,500
11/01/10	187,500	187,500	187,500
05/01/11	187,500	187,500	187,500
11/01/11	187,500	41,531	41,531
Total		\$ 2,666,531	\$ 3,041,531

The installment liabilities are general obligations of the City of Wyandotte and the City would be held responsible should the revenue of the Cable Television Fund prove insufficient to retire the obligations.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2004 and 2003

Note 7 - Restricted Assets

Certain assets are restricted pursuant to Commission resolution. When an expense is incurred that allows the use of restricted assets (such as bond debt principal and interest), those assets are applied before utilizing any unrestricted assets.

Restricted assets consist of the following:

	2004			2003	
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Debt service	\$ 8,269,255	\$ -	\$ 972,722	\$ 9,241,977	\$ 8,953,273
Capital improvements	2,813,320	-	-	2,813,320	2,791,175
Retiree health care	730,778	146,185	146,185	1,023,148	1,014,964
Total restricted assets	11,813,353	146,185	1,118,907	13,078,445	12,759,412
Less accrued interest payable from restricted assets	(1,165,006)	-	-	(1,165,006)	(1,227,006)
Net restricted assets	<u>\$ 10,648,347</u>	<u>\$ 146,185</u>	<u>\$ 1,118,907</u>	<u>\$ 11,913,439</u>	<u>\$ 11,532,406</u>

The Electric Fund assets restricted for debt service are pursuant to the 1992 revenue bond ordinance for revenue bond debt service. In conjunction with the bond ordinance, the Commission passed a resolution to reserve retained earnings in the Electric Fund of \$4,687,364, which represents the maximum annual debt service requirement for all outstanding bonds.

Assets have also been restricted in the Electric Fund for future capital improvements and to assist in paying future bond principal and interest payments pursuant to a resolution approved by the Commission.

Assets have been restricted in the Cable Fund to assist in paying future principal and interest payments on the installment purchase contract.

In the Electric, Water, and Cable Funds, monies have been restricted to pay future retiree health care costs, pursuant to a resolution approved by the Commission.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2004 and 2003

Note 8 - Defined Benefit Pension Plan

Plan Description - The Department participates in the City of Wyandotte Employees' Retirement System, a defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The City of Wyandotte Employees' Retirement System's financial report (which includes financial statements and required supplementary information for the system) is presented in the City of Wyandotte's September 30, 2004 annual financial report, which may be obtained at the City offices at 3131 Biddle Avenue.

At September 30, 2003, the date of the Department's most recent actuarial valuation, membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	68
Terminated employees entitled to benefits but not yet receiving them	20
Current active employees	99

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the Department's collective bargaining unit and City ordinance. Effective October 1, 1994, employee contributions are no longer required. For the year ended September 30, 2004, the Department's contribution was approximately \$488,000 for the plan, which was equal to the Department's required and actual contribution.

Three-year Trend Information

Funding information for the Department's participation in the pension plan for the fiscal years ended September 30 is as follows:

	2004	2003	2002
Annual pension cost (APC)	\$ 488,000	\$ 445,000	\$ 438,000
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2004 and 2003

Note 8 - Defined Benefit Pension Plan (Continued)

Additional Information - The Department's 2004 contribution represented approximately 11 percent of total contributions required of all participating entities. The assets of the entire system can be called upon to satisfy the obligations of any particular division since the system is ultimately a Citywide PERS. The valuation payroll for all employees covered by the system for the year ended September 30, 2004 was approximately \$12,868,000. The Department's covered payroll was approximately \$5,455,000.

Note 9 - Related Party Transactions

City-owned facilities are users of Department electric and water services. The Department includes its revenue charges from the sale of such services. Pursuant to the revenue bond ordinance, the Department charges the City for street and public safety lighting services. The Department has performed a cost of service study, which will likely result in a change to this charge in future periods. In turn, the City has charged the Department an equal amount for services in lieu of property taxes. The Department also provides billing and cash collection services for the City's sewer use charges, which are then remitted to the City upon collection. The Department earns a related collection fee for these services.

Included in the Department expenses is a franchise fee payable to the City equal to 5 percent of the gross revenue of the Cable Television Fund.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2004 and 2003

Note 9 - Related Party Transactions (Continued)

A summary of these transactions with the City for the years ended September 30, 2004 and 2003 is as follows:

	2004	2003
Department revenue:		
Electric and water services	\$ 260,613	\$ 260,146
Street and public safety lighting	435,174	439,169
Collection fee	80,335	76,852
Department expenses:		
In lieu of property taxes	(435,174)	(439,169)
Cable television franchise fee	(274,209)	(259,219)
Operating transfer to City of Wyandotte Sewage Disposal Fund	-	(92,322)
Remittances to City for sewer use charge collections	(2,730,000)	(3,125,000)
Payable to City of Wyandotte - Sewage Disposal Fund	(504,973)	(370,109)
Water mains contributed by the City	446,746	304,136

Note 10 - Risk Management

The Department is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Department has purchased commercial insurance for claims related to general liability and medical benefits. The Department is partially uninsured for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Workers' Compensation - All claims incurred are the responsibility of the Department up to \$850,000 per employee (in the case of disease) or \$850,000 per accident (for bodily injury). The Department has purchased commercial insurance coverage for claims incurred, which exceed the amounts previously described.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2004 and 2003

Note 10 - Risk Management (Continued)

The Department estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the Department's Electric Fund, Water Fund, and Cable Television Fund. Changes in the estimated liability were as follows:

Estimated liability - October 1, 2002	\$ 526,104
Estimated claims incurred, including changes in estimates	39,645
Claim payments	<u>(115,825)</u>
Estimated liability - September 30, 2003	449,924
Estimated claims incurred, including changes in estimates	143,419
Claim payments	<u>(31,047)</u>
Estimated liability - September 30, 2004	<u><u>\$ 562,296</u></u>

Note 11 - Contingencies

The Department is involved in various contingent matters arising in the normal course of operations. While insurance coverages and other potential remedies are available in certain circumstances to varying degrees, no opinion can currently be given as to the ultimate outcome of these matters. No provision has been made for the ultimate liability, if any, that may result from the resolution of these matters.

Note 12 - Bond Issuance Costs

During the year ended September 30, 2002, the Department paid \$931,515 of bond issuance costs related to the 2002 revenue refunding bonds. Amortization expense amounted to \$62,100 for the years ended September 30, 2004 and 2003.

City of Wyandotte, Michigan

Department of Municipal Service

Notes to Financial Statements September 30, 2004 and 2003

Note 13 - Postemployment Benefits

The Department provides health care benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, 68 retirees are eligible. The Department includes pre-Medicare retirees and their dependents in its insured health care plan, with some contribution required by most participants, depending upon employee group classifications. The Department purchases Medicare supplemental insurance for retirees eligible for Medicare. Net expenditures for postemployment health care benefits are recognized in the Electric and Water Funds as the insurance premiums become due; this amounted to approximately \$426,000 and \$69,000, respectively, during the year ended September 30, 2004 and \$367,000 and \$95,000, respectively, during the year ended September 30, 2003.

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending September 30, 2009.

Note 14 - Accounting Change

During the year ended September 30, 2003, the Department adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Statement No. 34 establishes standards for external financial reporting for all state and local government entities, which includes a management's discussion and analysis section, a balance sheet, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components - (a) invested in capital assets, net of related debt, (b) restricted for debt service and other purposes, and (c) unrestricted.

The adoption of Statement No. 34 had the following effects on the basic financial statements: changes in the classification of net assets, the reflection of capital contributions as a change in net assets, presentation of the statement of cash flows using both the direct and indirect methods, and the inclusion of a management's discussion and analysis (MD&A) section providing an analysis of the City of Wyandotte Department of Municipal Service's overall financial position and results of operations.

December 10, 2004

Municipal Service Commission
City of Wyandotte Department
of Municipal Service
3005 Biddle Avenue
Wyandotte, MI 48192

Members of the Municipal Service Commission:

We have recently completed our audit of the financial statements of the City of Wyandotte Department of Municipal Service for the year ended September 30, 2004. As a result of our audit, we offer the following comments and recommendations for the Department's consideration:

ELECTRIC FUND

OPERATING RESULTS

The Department's bond ordinance specifies that the Department's Electric Fund budget provide net revenue that equals or exceeds 110 percent of the annual debt service requirement. The ratio that measures the relationship between the Department's net revenue and its annual debt service requirement is known as the "debt service coverage ratio". While the 110 percent debt service coverage ratio test is prospective, it is important that the Department's actual results yield net revenue that equals or exceeds 110 percent of the annual debt service requirement. The actual debt service coverage ratio for the year exceeded 110 percent (approximately 127 percent for the year ended September 30, 2004).

Another financial covenant in the Department's bond ordinance requires that actual expenditures of the Department do not exceed budget. During the current year, the Department did not have to amend its budget in order to comply with this ordinance.

For the year ended September 30, 2004, the Electric Fund's operating income decreased from approximately \$1,744,000 in 2003 to \$806,000 in 2004 which impacted the Department's working capital as well. The decrease in operating income was the direct result of a decrease in customer billings of approximately \$303,000 (principally the Residential customer class) and increased operating expenses of approximately \$635,000 compared to last year (power production costs approximately \$686,000 greater than last year and over \$900,000 greater than budget). The Electric Fund's budget for 2005 is contingent on achieving savings in power production costs through negotiated purchase power arrangements. Coupled with outcome of the ultimate cost of the turbine repair project, these two matters will have a significant impact on the financial condition of the Electric Fund this year. We encourage the Department to continue to closely monitor the operating performance of the Electric Fund, particularly in light of the continuing rate and operating expense covenants. The Department has historically reviewed these matters more closely midway through the year to determine the need for adjustments, if any. We encourage the Department to continue this practice, particularly in 2005.

Municipal Service Commission
City of Wyandotte Department
of Municipal Service

ELECTRIC FUND (continued)

RESERVES AND LONG-TERM PLANNING

In the past, the Department established reserves within the Electric Fund to call bonds and to fund future capital improvements. During 2002, the Department used the bond call reserve to refinance certain outstanding bonds. As a result, there are no monies remaining in the bond call account. The capital improvement account was established to provide the Department with the ability to perform capital improvements when they are necessary and when money is not available from the Department's working capital. The capital improvement account has a balance of approximately \$2,813,000 restricted for this purpose at September 30, 2004. We continue to encourage the Department to review its capital spending on a multi-year basis to determine the adequacy of its working capital, capital reserves, and customer rates. With the decrease in operating income in 2004 and corresponding decrease in working capital, the Electric Fund's resources for additional capital spending have been reduced.

WATER FUND

OPERATING RESULTS

As in past years, the financial performance of the Water Fund continues to struggle. The Water Fund has negative working capital and has utilized monies collected on behalf of the City's Sewage Disposal Fund to manage its cash flows. The new reporting format required by GASB 34 reflects a deficit in Water Fund unrestricted net assets of approximately \$404,000 (compared to \$387,000 last year). Additionally, the Water Fund remains reliant on annual capital contributions from the City of Wyandotte Tax Increment Financing Authority to fund water main replacement projects. As indicated in the Water Fund's deficit elimination plan filed with the State for last year, the Department did proceed with rate adjustments to increase the operating revenue of the Water Fund. Future rate increases will be necessary to improve the performance of the Water Fund and to create an acceptable level of working capital. The Department should begin to prepare an updated deficit elimination plan to be filed with the State of Michigan Department of Treasury.

CABLE TELEVISION FUND

CABLE FINANCING AGREEMENT

Several years ago, the borrowings on the installment purchase contract for the purpose of constructing the Department's fiber optic cable network were completed. The Commission, by resolution, created a debt retirement account to provide a source of funds to have the option to prepay on the contract in the future. At September 30, 2004, the balance in this account was approximately \$973,000. Since a large portion of net assets is restricted for debt retirement, there are no significant monies unrestricted for operations. At September 30, 2004, approximately \$23,000 of unrestricted net assets was available. At September 30, 2003, the Commission transferred \$100,000 to unrestricted net assets.

Municipal Service Commission
City of Wyandotte Department
of Municipal Service

GENERAL MATTERS

RETIREE HEALTH CARE

The Commission has established separate accounts to accumulate monies for retiree health care. In the resolution that created these accounts, the Commission is to determine annually the amount, if any, to be transferred within the Electric Fund, the Water Fund, and the Cable Fund from operating cash into the retiree health care restricted accounts. As expected, the Governmental Accounting Standards Board has now released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local governments and related organizations in recognizing the cost of retiree health care benefits. The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. As a result, the Department will need to budget more than just its actual out-of-pocket costs for these benefits. While it will be several years before the standards become effective, we encourage the Department to work with its actuary to perform a valuation analysis on this benefit to provide the Department an estimate of the projected cost that will be added to its budget when the statement becomes effective.

ACCOUNTING AND CONTROL MATTERS

During this year's audit, we were required to implement Statement on Auditing Standards Number 99 (referred to as SAS 99) entitled *Consideration of Fraud in a Financial Statement* as part of our audit. SAS 99 requires new procedures regarding the auditor's consideration of the possibility of fraud in a financial statement audit. This resulted in new and additional testing in the conduct of this year's audit. Therefore, the comments noted below are a direct result of the additional procedures applied through the implementation of SAS 99:

- As part of the audit in the past, we have discussed with the Department the assignment of responsibilities and the balance with segregation of duties given the practical considerations of size of the organization. We continue to encourage the Department to review the assignment of responsibilities, while considering the segregation of duties. As you are aware, segregation of duties is an important component to any organization's system of internal control. The Department's current assignment of responsibilities results in staff preparing account balance reconciliations without additional levels of review (for example, bank reconciliations, accounts receivable subledger reconciliation to the general ledger, etc.). Additionally, with the current assignment of responsibilities, there is limited time devoted throughout the year to detail reconciliation activities and financial analysis. Creating additional time for accounting staff to perform these activities will continue to improve the Department's financial reporting process. We recommend that the Department review the current assignment of responsibilities related to its accounting functions and that the Department consider alternative staffing models including hiring additional accounting support personnel, re-assigning duties among existing staff, and/or working with the City's Finance Department to share resources in this area.

GENERAL MATTERS (continued)

ACCOUNTING AND CONTROL MATTERS (continued)

- Like many organizations, written policies and procedures do not always exist for all the Department's operating practices. Based on our discussions with management, the Department has been trying over the last several years to document its operating practices and establish consistency across departments as policy issues arise. We encourage the Department to continue its efforts in this area. More specifically, we recommend that the Department review its policy for the sale of scrap and disposal of fixed assets. Also, the Department should continue the efforts that have been made over the last several years to clarify for Department personnel the differences between capital and operating costs.
- Most of the Department's general inventory of parts is stored at its main warehouse. It is a good practice to periodically to change the locks at locations where inventory is stored to ensure that access is limited only to those authorized individuals. Additionally, while the Department performs a complete physical inventory annually in conjunction with the Department's year end, we encourage the Department to continue to use cycle counting of inventory to periodically ensure the integrity of the amounts recorded in the general ledger.
- The Department's largest cost center is the power plant. Including fuel costs and other power production costs, power plant expenses for the year ended September 30, 2004 were approximately \$12.5 million. As previously indicated, the costs increased from the prior year despite lower billings to electric customers and were significantly in excess of budget for 2004. We encourage power plant supervisory personnel to closely monitor spending in 2005 particularly in light of the 2005 budget which anticipates savings from purchasing versus producing more of the Department's power needs.

The following are other accounting related matters that we noted during our testing:

- The Department has implemented most of the HTE financial management system. However, the Department has not migrated the fixed asset accounting into the HTE system. We would recommend migrating the data from the old system to the new system, and caution the Department that this implementation will require a time investment by Department staff. At conversion, the Department should consider reviewing all of its fixed asset information, to delete any assets from the system that are no longer in use and/or modify useful lives as appropriate. Many organizations use this opportunity to perform a physical inventory of its fixed asset records resulting in more accurate information for both accounting and insurance purposes.
- The Department participates in the City of Wyandotte Employees' Retirement System, a defined benefit pension plan that covers all employees of the City. In the actuary report, a separate calculation is made of the funding status of the Department.

December 10, 2004

Municipal Service Commission
City of Wyandotte Department
of Municipal Service

GENERAL MATTERS (continued)

ACCOUNTING AND CONTROL MATTERS (continued)

In the most recently completed actuarial report, the unfunded actuarial accrued liability increased significantly as indicated in the chart below:

	<i>(\$ Amounts in Thousands)</i>	
	<u>9/30/2002</u>	<u>9/30/2003</u>
Actuarial Accrued Liability	\$15,375	\$19,134
Actuarial Value of assets	17,851	18,219
Unfunded actuarial accrued liability	(\$ 2,476)	\$ 915

As a result, the Department's pension contribution as a percentage of payroll increased to 13.17 percent. The Department did anticipate an increase in the pension contribution as a percentage of payroll and has voluntarily adjusted its contribution upward in recent years.

CONCLUSION

We have previously reviewed the content of this letter with the Commission's Finance Subcommittee and management and would be happy to further discuss these items if you desire. We would like to take this opportunity to thank all Department personnel for their cooperation and assistance during the course of the audit particularly this year with the implementation of SAS 99.

Very truly yours,

PLANTE & MORAN, LLP



Frank W. Audia